



Understanding Early Withdrawals from Retirement Accounts

Barbara A. Butrica, Sheila R. Zedlewski, and Philip Issa

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A crosscutting team of Urban Institute experts in Social Security, labor markets, savings behavior, tax and budget policy, and micro-simulation modeling ponder the aging of American society.

The aging of America raises many questions about what's in store for future and current retirees and whether society can sustain current systems that support the retired population. Who will prosper? Who won't? Many good things are happening too, like longer life and better health. Although much of the baby boom generation will be better off than those retiring today, many face uncertain prospects. Especially vulnerable are divorced women, single mothers, never-married men, high school dropouts, and lower-income African-Americans and Hispanics. Even Social Security—which tends to equalize the distribution of retirement income by paying low-income people more than they put in and wealthier contributors less—may not make them financially secure.

Uncertainty about whether workers today are saving enough for retirement further complicates the outlook. New trends in employment, employer-sponsored pensions, and health insurance influence retirement decisions and financial security at older ages. And, the sheer number of reform proposals, such as personal retirement accounts to augment traditional Social Security or changes in the Medicare eligibility age, makes solid analyses imperative.

Urban Institute researchers assess how current retirement policies, demographic trends, and private sector practices influence older Americans' security and decision-making. Numerous studies and reports provide objective, nonpartisan guidance for policymakers.

The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration.

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Contents

List of Tables	ii
List of Figures	ii
Abstract	iii
Introduction	1
Background	3
Assets in Retirement Accounts	4
Rules Governing Withdrawals	6
Previous Studies on Early Withdrawals	9
Methods	12
Measures of Income, Assets, Balances, Withdrawals, and Cashouts	12
Measures of Life-Changing Events	13
Sample	14
Who Owns IRAs or 401(k)s?	15
Who Withdraws from IRAs or 401(k)s?	18
How Much is Withdrawn from IRAs and 401(k)s?	21
What Events are Associated with IRA and 401(k) Withdrawals?	24
Share of Aggregate Dollars Leaked from Retirement Accounts	30
Summary and Conclusions	32
References	35

List of Tables

1. Rules Governing Early Withdrawals from Retirement Accounts.....	7
2. Events Potentially Associated with Retirement Account Withdrawals.....	14
3. Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s, 2004.....	16
4. Mean and Median Per Person Account Balances among Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s, 2004.....	19
5. Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Who Withdrew from Their Accounts between 2004 and 2005.....	20
6. Percent of Aggregate Account Balances Withdrawn among IRA and 401(k) Owners Ages 25 to 58.....	23
7. Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Who Withdrew from Their Accounts between 2004 and 2005, by Event.....	25
8. Probability That Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Withdrew from Their Accounts between 2004 and 2005	27
9. Percent of Aggregate Dollars Leaked from IRAs and 401(k)s between 2004 and 2005, by Event.....	31

List of Figures

1. Retirement Account Assets 1984 through 2009.....	6
2. Cumulative Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Who Withdrew from Their Accounts between 2004 and 2005, by Withdrawal Amount.....	22

Abstract

Less-advantaged individuals are less likely to have IRAs and 401(k)s, and those who do are more likely to withdraw savings before retirement. About 40 percent of withdrawals can be linked to adverse or investment events, including the onset of poor health, job loss, home purchases, and college expenses. Another 10 percent occur at job change for what may be reasonable expenses. Half of withdrawals can not be attributed to the events we could observe and may represent unnecessary loss of retirement savings. The results show the importance of policies that preserve retirement savings and increase savings for non-retirement events.

Introduction

Many Americans do not save outside of Social Security for retirement. In 2009, only 20 percent of private sector workers under age 65 were enrolled in employer pension plans that will pay a defined benefit in retirement (U.S. BLS 2009). Another 43 percent worked for employers that offered retirement savings plans such as 401(k)s,¹ but only 70 percent of them elected to participate.² Pension coverage and participation for public sector workers is much more common. Workers can also contribute to individual retirement accounts (IRAs), but only about 10 percent did so in 2004 (Bryant 2008).³

Policymakers have been searching for ways to increase retirement savings. For example, the Pension Protection Act of 2006 encouraged employers that offer 401(k) plans to automatically enroll new employees by offering employers more legal protections. More recently, President Obama's 2011 budget calls for employers with more than 10 workers that currently do not offer pension plans to set up automatic IRAs for their employees. Employers would automatically deduct 3 percent of workers' pay and deposit the money into their IRAs. Employees could opt out of this retirement savings deduction or change the amount deducted. The impetus behind automatic enrollment comes from numerous studies documenting higher

¹ We use this familiar term to refer to all employer pension plans that establish retirement savings accounts in workers' names. This group includes 401(k) plans, 403(b) plans offered to workers in the nonprofit sector, and miscellaneous other defined contribution plans. We use the terms "401(k)" plan and "defined contribution" plan interchangeably unless a distinction is noted in the text. See Purcell and Topoleski (2009) for a discussion of these terms.

² Defined benefit and defined contribution participation rates include workers with both types of plans.

³ Authors' calculations based on data presented in table 4 of Bryant (2008). As described later, IRA contributions are limited by employer coverage, income, and tax filing status.

participation in pension plans where participation is the default rather than an opt-in choice (Beshears et al. 2009; Choi et al. 2004; Madrian and Shea 2001).

Of course, increasing pension participation is only part of the solution for increasing retirement savings. Participants also need to preserve their savings for retirement. The numerous rules governing IRA and 401(k) plans help to discourage withdrawals. Early withdrawals often generate tax penalties, and individual employer pension plans can further restrict withdrawals. Nonetheless, retirement assets held in 401(k) plans, especially IRAs, can easily be tapped to finance preretirement needs. Recent estimates indicate that 3 percent of assets in IRA and 401(k) accounts are withdrawn annually by individuals under age 60.⁴

This study examines early withdrawals from retirement savings plans and how they are associated with life-changing events. Other studies of 401(k) withdrawals usually consider only those that occur with job separations. It is also important to understand withdrawals outside of job departures, particularly since most employers allow hardship withdrawals from 401(k) plans. In addition to the retirement assets in 401(k) plans, large sums of retirement assets are held in IRAs. While it is well known that most of the IRA assets result from rollovers at the point of job change, little is known about what happens subsequently to these assets. This study uses Census data from 2004 and 2005 to examine *all* withdrawals from 401(k)s *and* IRAs and understand how these withdrawals are related to life-changing events. We find that withdrawals, while relatively infrequent over a two-year period, represent a significant loss to retirement savings.

⁴ Tax return data from 2004 indicate that taxpayers under age 60 withdrew about 3 percent, or \$41 billion, of their IRA assets (authors' calculations based on data presented in table 4 of Bryant [2008]). The GAO estimates that \$83.6 billion of 401(k) leakage reported in 2006 was through cashouts at job change, hardship withdrawals, and loan defaults (U.S. GAO 2009). However, this total includes only the owner's most recent cashout, regardless of the year when it occurred.

However, we also find significant correlations between withdrawals and adverse family events such as unemployment and the onset of poor health, as well as family investment needs for primary homes and education, suggesting that early withdrawals help families meet some important preretirement financial needs.

We begin by discussing how much families have in retirement savings accounts and the rules governing withdrawals from these accounts. Then we review past literature describing early withdrawals. Next we describe our methods and the basic data underlying the results. We begin the results section by describing the characteristics of retirement account owners and their balances. We then examine the characteristics of those who withdraw from their retirement accounts and the share of their balances withdrawn. Finally, we explore the correlations between life events and withdrawals. The last section draws implications for current retirement income policy.

Background

Most retirement savings are held in accounts that workers can tap before retirement under certain circumstances. Assets in retirement accounts (defined contribution plans and IRAs) peaked at \$8.6 trillion in 2007 and bottomed out at \$5.9 trillion in the first quarter of 2009, after the 2008 market crash (Butrica and Issa 2010). These assets likely will continue growing as more private sector employers move away from traditional defined benefit pension plans to 401(k) plans. Government and employer rules discourage withdrawals from these accounts but still leave ample room for nonretirement uses. Recent literature on leakages from retirement accounts tends to focus on withdrawals that occur with job changes, not those separate from job changes. This

literature finds that leakages at job change occur most often among younger workers and those with smaller balances. Other studies find less common but still significant amounts of hardship withdrawals outside of job changes.

Assets in Retirement Accounts

About half of private sector workers have employer pension coverage, and the majority of covered workers have defined contribution plans. In defined contribution plans, employees usually make tax-deferred contributions, often specified as a particular share of salary, to a retirement account.⁵ In 2010, workers under age 50 can contribute a maximum of \$16,500 and those ages 50 and older can contribute up to \$22,000. Employers can structure their matching provisions in many ways, but they generally match 50 cents on every dollar contributed by employees, up to 6 percent of salary. Although employee contributions vest immediately, employer contributions usually vest over some period of time which by law may not exceed six years.⁶

Many individuals have IRAs. They often result from rollovers from defined contribution and other employer plans upon separation from employment.⁷ With traditional IRAs, 2010 contribution limits are \$5,000 (\$6,000 for those 50 and older). Contributions may be tax

⁵ Effective January 1, 2006, employers could offer Roth 401(k) accounts in which workers contribute posttax dollars to their accounts, but the contribution and earnings are tax exempt in retirement. We do not discuss these accounts in detail since they were not in effect during the period covered by our data.

⁶ According to the 2005 National Compensation Survey, 22 percent of private industry workers with savings and thrift plans had immediate vesting, another 22 percent had cliff vesting, 47 percent had graded vesting, and 8 percent were not determinable (U.S. BLS 2007).

⁷ Sometimes employers cash out defined benefit plan balances and, more commonly, cash balance (CB) plan balances at job change. CB plans, representing about a quarter of all defined benefit plans, provide workers with retirement savings accounts but fall under defined benefit plan rules since the benefit is *guaranteed* to be no less than the sum of contributions plus accrued interest.

deductible depending on income, filing status, and employer coverage. Individuals not covered by an employer retirement plan can deduct their full contribution, unless their spouse has employer coverage. In this case, deductions phase out for aggregate gross income (AGI) between \$167,000 and \$177,000 in 2010. Among individuals covered by an employer plan, deductions phase out if AGI is between \$89,000 and \$109,000 for married couples and between \$56,000 and \$66,000 for single individuals. Those whose contributions are not fully deductible can make nondeductible contributions up to the same contribution limits. In traditional IRAs, savings grow tax free and are taxed when withdrawn in retirement (after age 59.5).

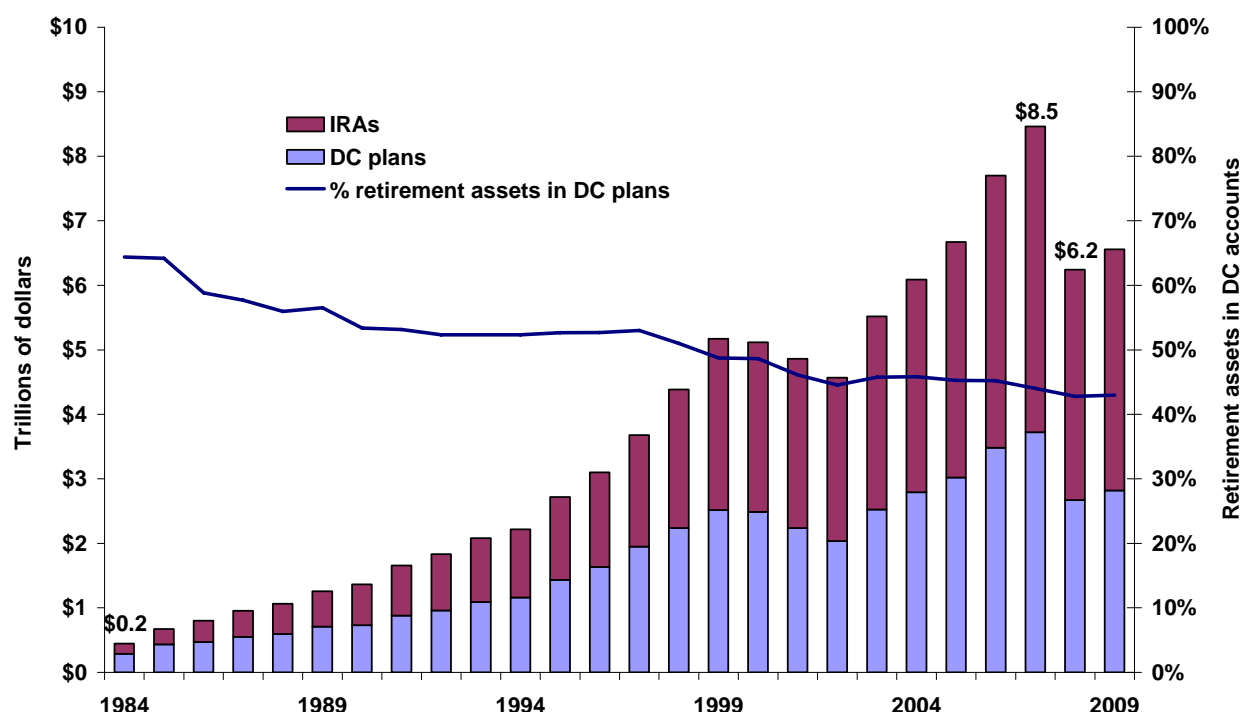
With Roth IRAs, contribution limits depend on AGI. In 2010, contributions phase out if AGI is between \$167,000 and \$177,000 for married couples and between \$105,000 and \$120,000 for single individuals. Individuals with AGI below these limits can contribute up to \$5,000 (\$6,000 if age 50 or older). Above the higher limits, individuals can not contribute to Roth IRAs. Unlike traditional IRAs, contributions to Roth IRAs are not tax deductible; however, their savings grow tax free and withdrawals in retirement are not taxed.

Finally, some employers offer their workers IRAs through simplified employee pension (SEP) plans and SIMPLE plans (i.e., savings incentive match plans for employees of small employers).

At year-end 2007, the peak year for retirement asset levels, accumulations in defined contribution plans totaled about \$3.50 trillion, IRAs held \$4.75 trillion, and private sector defined benefit plans held \$2.33 trillion (Copeland 2008). Retirement assets in IRAs began to exceed assets in 401(k) plans in 1999 (figure 1). The growth in IRA balances is primarily due to rollovers from employer plans at job separation (including retirements). For example, in 2004,

taxpayers contributed \$49 billion to IRAs and rolled over \$215 billion (Bryant 2008). Employer-sponsored IRAs (SEP, SAR-SEP and SIMPLE) accounted for only a small share of the total IRA market (Holden and Schrass 2010).

Figure 1. Retirement Account Assets 1984 through 2009



Source: Authors' calculations using the Flow of Funds Accounts of the United States.
Note: Retirement account assets in 2009 are reported for the end of the second quarter.

Rules Governing Withdrawals

The rules on withdrawing from retirement savings accounts differ between employer-sponsored 401(k) plans and IRAs (table 1). Active workers with 401(k) balances can only access these accounts to purchase a primary residence, help cover higher education expenses, or meet other spending needs during times of economic hardship. While withdrawals are subject to employer adoption (administration can be costly), most employer plans allow them. Withdrawals usually

Table 1. Rules Governing Early Withdrawals from Retirement Accounts

Type of Plan	Rules Applying to Type of Withdrawal	Penalties
401(k)	Hardship During Employment: Purchase of principal home, unreimbursed medical costs, postsecondary tuition, prevention of foreclosure, repair of damage to principal residence, and funeral expenses. Withdrawals are usually limited to amount of employee's elective contributions (not including earnings on contributions). Employer option (89% offer). Employer may require loan first. Withdrawals restricted to amount of hardship cost.	1) 10% penalty applies. 2) 6 month suspension of contributions, including employer match, following hardship.
	Loan: Limited to maximum of half of vested balance or \$50,000. Must be repaid in 5 years except 15 years for home. Favorable interest rate (usually prime or prime +1). Employer option (51% offer, including most large employers).	1) 10% penalty applies only if loan is not repaid on time. 2) Participant can contribute while loan is being repaid.
	Lump Sum at Job Separation Plan sponsors must deposit balances between \$1,000 and \$5,000 into an IRA or another employer plan unless employee opts out. Employees must agree in writing to a cashout or rollover for distributions of more than \$5,000 (otherwise the balance remains in the former employer plan). Employers can compel cashout for balances under \$1,000. Employers must withhold 20% of cashout to cover anticipated taxes. The Pension Protection Act of 2006 requires plan sponsors to notify participants of the consequences of failure to defer balances at job separation.	1) 10% penalty if under age 55. 2) Exempt from penalty if age 55 and older. 3) Exempt from penalty if taken in equal payments using life table and payments last at least 5 years.
	Other Withdrawals: Disability, death, periodic payments over a lifetime (of the participant and designated beneficiary), medical expenses that exceed 7.5% of adjusted gross income, and some instances related to domestic relations orders, calls to active duty, and levies on qualified plans.	No penalty applies.
IRA (Traditional)	Hardship: Medical expenses that exceed 7.5% of adjusted gross income, medical insurance premiums while unemployed, total and permanent disability, death.	No penalty applies.
	Loan: Not permitted.	
	Other Withdrawals: For first home purchase (up to \$10,000 per owner applying if did not own in previous 2 years), and for postsecondary education for any family member.	No penalty applies.
IRA (Roth)	If owned Roth for 5 years, then withdrawals permitted for qualified distributions as defined above for IRAs.	No tax or penalty applies.

Note: Rules apply to workers under age 59.5. Special rules apply to those age 70.5 and older who are required to begin withdrawing from taxable IRA and 401(k) accounts.

are limited to the employee's own contributions (excluding earnings). Employees younger than 59.5 must pay a 10 percent tax penalty in addition to regular taxes on the amount withdrawn. Employees incur another penalty because a hardship withdrawal suspends their contributions, including the employer match, for six months. The tax penalty does not apply to withdrawals due to total disability or death, or for medical costs in excess of 7.5 percent of the taxpayer's adjusted gross income.

Workers can also access their account balances through loans. Over half of 401(k) plans offer this option, covering 88 percent of all participants (Holden, VanDerhei, and Alonso 2009). The amount of the loan is limited and must be repaid within 5 years or 15 years if used to purchase a home. Holden, VanDerhei, and Alonso (2009) report that 18 percent of plan participants eligible for loans had outstanding loan balances at year-end 2008. The Federal Reserve Survey of Consumer Finances reports that 9.5 percent of all plan participants had outstanding loans in 2007 (Purcell and Topoleski 2009). The data suggest that the number of loans would increase if more employers offered this option. Loans generate a loss in retirement savings only to the extent that employees default. U.S. GAO (2009) estimates that loan defaults reported in 2006 were \$561 million, a tiny share of all 401(k) assets.⁸

Most withdrawals from 401(k) plans occur at job separation. Private sector plan sponsors can compel individuals to close their account and take a lump-sum payment if the balance is less than \$1,000. For balances between \$1,000 and \$5,000 employers must now roll over the amount to an IRA or another employer plan unless the employee requests a lump-sum payment.

⁸ The U.S. GAO (2009) study reports withdrawals, loans, and defaults that occurred for respondents in the 2004 Survey of Income and Program Participation.

Employers may retain balances greater than \$5,000 in their plans or offer employees the option of rolling over the amount, including taking all or part as a lump-sum distribution.

There are fewer restrictions on IRA withdrawals and more opportunities to avoid the tax penalty. Unlike 401(k) plans, money can be withdrawn from IRAs for *any* purpose, but individuals under age 59.5 must pay a 10 percent tax penalty unless it is an allowable withdrawal. Withdrawals for first-time home purchases (up to \$10,000) and postsecondary education are allowed, as are hardship withdrawals due to excessive medical expenses, medical insurance premium payments while unemployed, total disability, and death (U.S. IRS 2010). Individuals cannot borrow from their IRAs.

Previous Studies on Early Withdrawals

Given the opportunity to cash out retirement savings at job change, numerous studies have examined the likelihood of these withdrawals. Some studies examined withdrawals in a broader context, including one that uses tax data to associate family events with withdrawals that generated tax penalties. A private sector survey of IRA participants also documents early withdrawals. Each of these studies is described below.

Prior research generally finds that the majority of workers receiving lump-sum distributions use at least some of the money for nonretirement consumption. Purcell (2009) reports that 45 percent of job separators receiving lump-sum distributions said they rolled over all the money, accounting for 70 percent of the value of all distributions. Copeland (2009), examining trends in rollovers, reports an increase from 1980 to 2006 in the percentage of lump-sum recipients who rolled over the entire amount into tax-qualified savings plans and a decline in the percentage of recipients using any portion of their distribution for consumption. These trends

may reflect new rules affecting lump-sum distributions, such as the requirement enacted in 1993 that employers retain 20 percent of the distribution for tax purposes (Burman et al. 2007).

Verma and Lichtenstein (2006) find that half of all boomers born between 1946 and 1965 receiving lump-sum distributions did not roll over the money. Older boomers and those with more education and higher incomes are more likely to save the money for retirement. A majority of those who spent the money used at least some to pay off debt. Hurd and Panis (2006), using data from the Health and Retirement Study, find limited leakage at job change for workers age 51 and older; leakage tends to be concentrated among individuals vulnerable to poverty in old age.

U.S. GAO (2009) examines leakage more broadly using the Survey of Income and Program Participation (SIPP) and reports no significant changes in leakage trends over the 1998, 2001, and 2004 surveys. About 15 percent of participants between ages 15 and 60 initiated at least one form of leakage in 2006, with more borrowing than withdrawing. However, most of the estimated \$84 billion leaked was from lump-sum cashouts since most borrowers repay their loans.⁹ Their analysis of industry data also showed that leakage remained steady through 2008. Industry data showed little change even in first quarter of 2009, when unemployment rates, and presumably consumption needs, were skyrocketing.

Amromin and Smith (2003) use data from a 10-year panel of individual tax returns covering 1987 to 1996 to examine whether particular family events trigger early withdrawals from IRAs and employer 401(k) plans.¹⁰ The authors report that withdrawals are more likely

⁹ As noted earlier, the U.S. GAO (2009) reports amounts for the “most recent” withdrawal by respondents. Thus, dollars leaked are aggregated over multiple years.

among taxpayers with little nonretirement financial wealth and those who experience job loss, income shocks, divorce, and home purchases. Each event increased the likelihood of early withdrawals by 3 to 10 percentage points.

Holden and Schrass (2010) report withdrawal behavior from an IRA owners' survey. Among those younger than 59 owning traditional IRAs, about 5 percent took a withdrawal in 2008.

These earlier studies suggest significant withdrawals at job change. More than half of workers spend at least some of their retirement savings when offered the option. The studies also indicate that younger workers and those with small balances are more likely to spend the money than older workers and those with large balances. Still, this leakage amounts to a significant loss in retirement income. If left untouched, savings at younger ages can grow over time into considerable sums at retirement.

Much less is known about withdrawals outside of job change. These withdrawals, typically measured annually, no doubt add up over a lifetime. A large share of retirement assets is held in IRAs, which have fewer limits on their use than do employer plans. We know that these withdrawals tend to be associated with adverse life events or large purchases such as homes and education. Of course, many of these withdrawals also reflect the rules governing IRAs and 401(k) plans. Our study provides newer, more representative information about withdrawals from retirement accounts and controls for numerous factors that may affect these decisions.

¹⁰ As the authors note, they focus on primary taxpayers between ages 21 and 59 with complete 10-year histories, which biases their data toward middle-aged and higher-income taxpayers.

Methods

The data come from the 2004 Survey of Income and Program Participation. We begin by analyzing the demographic characteristics, economic characteristics, and retirement savings patterns of respondents between the ages of 25 and 58 in 2004. Of those respondents who reported owning an IRA or 401(k) in 2004, we follow them over 24 months (through 2005) to observe whether they withdrew from their IRAs or 401(k)s and, if so, whether the withdrawals are correlated with certain demographic characteristics, economic characteristics, or life-changing events. We do not examine retirement account loans since this represents leakage only if the loan is not repaid.

Information on IRAs and 401(k)s comes from two different SIPP topical modules. The Annual Income and Retirement Accounts topical module asks about IRA and 401(k) ownership, balances, contributions, interest, and withdrawals for all respondents. We use data for 2004 (wave 4) and 2005 (wave 7) from this topical module. The Retirement and Pension Plan Coverage topical module for 2005 (wave 7) provides information on 401(k) pension coverage, lump sums, and cashouts for workers. We use these data together with information on asset ownership and balances from the 2004 Assets and Liabilities topical module (wave 3) and information on demographic characteristics, income, and life-changing events from the core SIPP.

Measures of Income, Assets, Balances, Withdrawals, and Cashouts

Our measure of income includes salaries, wages, asset income, program income, and other types of cash-transfer income, as well as noncash income such as rent subsidies and educational

assistance. This income measure applies to the first month of 2004 as reported in the core SIPP. Our measure of wealth includes financial assets and liabilities but excludes IRA and 401(k) assets, as well as property assets and liabilities. This wealth measure applies to the end of 2004.

The SIPP does not provide retirement account balances at the beginning of 2004. We construct them by using retirement account balances at the end of 2004, subtracting contributions and interest in 2004, and adding 2004 withdrawals.

Although our results on the incidence of withdrawals do not include multiple withdrawals by the same respondents, our results on withdrawal amounts do. We sum all withdrawal amounts over the 2-year period. Finally, we sum dollar amounts over each respondent in a married couple during the reference period and divide by 2 to create per capita measures of income, assets, balances, and withdrawals. We report all amounts in 2005 dollars.

Measures of Life-Changing Events

Our main analytical objective is to understand how early withdrawals from retirement accounts might be correlated with various life-changing events. We follow respondents over 24 months to observe whether they live in families that experience a negative or adverse event, such as an involuntary job loss, onset of poor health, divorce, or widowhood, and whether they experience a positive investment event, such as a voluntary job switch, birth of a child, starting college, or a home purchase (table 2).¹¹ We estimate the correlation between withdrawals from retirement

¹¹ We classify job switch as an investment because we assume that voluntary job changes are to better jobs. We classify birth of a child as an investment because we assume that most parents will view the extra costs of raising a child as an investment in their children's future.

accounts and each event.¹² We provide summary statistics showing what share of withdrawals can be associated with these events. For those who experience multiple events, we allocate equal shares of the withdrawal amounts to each event.

Table 2. Events Potentially Associated with Retirement Account Withdrawals

Event	Definition
Adverse	
Job Loss	Main reason for leaving job is a lay off, discharge, firing, employer bankruptcy or sale, temporary job ending, or slack work or business conditions.
Onset of Poor Health	Main reason for leaving job is an illness or injury; individual experiences a disability that limits amount or kind of work.
Divorce / Widowhood	Individual reports change in marital status from married to divorced or widowed between two survey months.
Investment	
Job Switch	Main reason for leaving job is to take another job.
Birth of Child	Baby born to parents in 2004 or 2005.
College Expenses	Parent or child enters college.
Home Purchase	Change in homeownership between two months from nonowner to owner.

Sample

To create our sample, we start with 32,685 respondents between ages 25 and 58 in 2004 and in the SIPP all 24 months between 2004 and 2005 based on having a nonzero longitudinal panel weight.¹³ We then drop 466 respondents who did not answer the Annual Income and Retirement Accounts topical module in either year. We also drop 24 respondents who did not answer the Assets and Liabilities topical module. Ultimately, our initial sample includes 32,195 respondents—comprised of those with and without retirement accounts.

¹² Withdrawals and events may not necessarily coincide. We only know that withdrawals occurred at some point during the two-year period. The same is true of events. However, we do not think this represents a problem since, for example, some people may take a withdrawal first knowing they are about to purchase a home while others may take a withdrawal after purchasing a home to help with fix-up and moving costs.

From our initial sample, 16,853 respondents report owning retirement accounts in 2004—9,470 report owning an IRA and 13,520 report owning a 401(k). Among these, 1,400 retirement account owners report withdrawing from their accounts between 2004 and 2005—363 report IRA withdrawals and 1,069 report 401(k) withdrawals. Our analysis also includes lump-sum distribution cashouts from 401(k)s. The 1,069 respondents reporting 401(k) withdrawals includes 236 who report only a cashout, 768 reporting only a withdrawal, and 65 reporting both. Comparisons of cashout and withdrawal amounts for these 65 individuals led us to question whether these referred to the same event. Therefore, we ignore the cashout information for these individuals and only consider their withdrawal information.

Who Owns IRAs or 401(k)s?

About half of all adults between the ages of 25 and 58 live in families reporting retirement account ownership in 2004 (table 3).¹⁴ Among this age group, IRAs are less common than employer-based 401(k)s with 28.6 percent of adults reporting IRAs compared with 40.9 percent who own 401(k)s.

Retirement account ownership varies significantly by race, education, and income. College graduates are more likely than other educational groups to own retirement accounts. For example, nearly three in four (72.0 percent) college graduates owned retirement accounts in 2004 compared with about one in two (51.6 percent) of those with some college education, two in five

¹³ The SIPP assigns a zero longitudinal panel weight to respondents who leave the U.S. noninstitutionalized population between 2004 and 2005, as well as to respondents who cannot be tracked for all 24 months.

¹⁴ Our results show patterns of ownership and withdrawals among persons living in families with retirement savings accounts since we want to associate family events with withdrawals in the family. As noted earlier, we focus on individuals and couples and exclude withdrawals among other adults living in the family, a relatively rare occurrence.

Table 3. Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s, 2004

	Percent	Percent Owners		
	All	IRA or 401(k)	IRA	401(k)
All	100.0%	51.2%	28.6%	40.9%
Age				
25-34	28.7%	44.1%	20.8%	37.0%
35-44	32.6%	53.0% ***	29.1% ***	43.5% ***
45-54	30.8%	55.3% ***	33.3% ***	43.3% ***
55-58	8.0%	52.6% ***	36.1% ***	34.7% **
Sex				
Female	51.1%	51.2%	28.7%	40.7%
Male	48.9%	51.1%	28.5%	41.1%
Education				
< High School	11.1%	15.8%	4.9%	13.0%
High School	23.5%	41.7% ***	18.4% ***	33.6% ***
> HS, Not Yet Bachelor's	36.7%	51.6% ***	26.2% ***	41.4% ***
>= Bachelor's	28.8%	72.0% ***	49.1% ***	56.9% ***
Race				
Non-Hispanic White, Other	75.3%	58.0%	34.1%	45.8%
Non-Hispanic Black	11.6%	32.8% ***	12.8% ***	28.4% ***
Hispanic	13.1%	28.3% ***	11.0% ***	23.7% ***
Marital Status				
Unmarried	35.3%	36.2%	17.8%	28.0%
Married	64.7%	59.3% ***	34.5% ***	47.9% ***
Income Quartile				
Bottom	25.0%	16.0%	9.6%	8.8%
Second	25.0%	43.0% ***	19.1% ***	33.7% ***
Third	25.0%	66.1% ***	33.9% ***	53.4% ***
Top	25.0%	79.6% ***	51.7% ***	67.6% ***
Financial Assets Quartile				
Negative or Zero	53.2%	39.5%	17.3%	32.5%
Bottom	11.7%	40.3%	17.8%	32.8%
Second	11.7%	62.3% ***	34.9% ***	50.8% ***
Third	11.9%	73.7% ***	50.5% ***	57.1% ***
Top	11.5%	81.4% ***	62.9% ***	61.0% ***
Weighted Observations (000s)	130,967	130,967	130,967	130,967
Unweighted Observations	32,195	32,195	32,195	32,195

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004 and present during the entire 24 months between 2004 and 2005.

Financial assets exclude IRA and 401(k) balances. All results are weighted.

Mean is statistically different from the value for those in the first category of the subgroup at the 90 percent level*, 95 percent level **, and 99 percent level***.

(41.7 percent) of high school graduates, and only one in six (15.8 percent) of high school dropouts. The pattern is similar for IRAs and 401(k)s.

As expected, adults with higher incomes and more assets are much more likely to own IRAs or 401(k)s than those with lower income and fewer assets. Whites own retirement accounts more often than either blacks or Hispanics (58.0 percent compared with 32.8 and 28.3 percent, respectively).¹⁵ Ownership patterns by race are similar when we consider IRAs and 401(k)s separately.

Nearly 80 percent of adults in the top income quartile own retirement accounts, and they are 5.0 times more likely to do so than their counterparts in the bottom income quartile. Similarly, just over 80 percent of adults in the top assets quartile own retirement accounts, about twice as often as those in the bottom two assets quartiles.

Although 401(k) ownership is more prevalent than IRA ownership for most adults in our sample, this relationship is even stronger for the subgroups least likely to own retirement accounts, namely younger adults, high school dropouts, blacks and Hispanics, and those with low income and few assets. For example, high school dropouts are 2.7 times more likely to own 401(k)s than IRAs (13.0 percent compared with 4.9 percent), while college graduates are only 1.2 times more likely to own 401(k)s than IRAs (56.9 percent compared with 49.1 percent). It is not clear whether this finding suggests fewer rollovers at job change among disadvantaged groups, lower rates of IRA ownership and contributions among disadvantaged groups, or both.

¹⁵ For ease of exposition, we use the term “whites” to refer to non-Hispanic whites, and the term “blacks” to refer to non-Hispanic blacks.

Balances in retirement accounts among those that own IRAs or 401(k)s show the patterns one would expect (table 4).¹⁶ Balances increase with age, as workers have had more time to accumulate savings. Balances also increase with education, reflecting greater income and the likelihood of having pension coverage on a job. Balances are lowest among Hispanics. Average balances for whites are about double those for Hispanics and 88 percent higher than for blacks. Balances also increase with income and financial asset levels. Our sample holds more savings in 401(k) plans than IRAs since it excludes those over age 58. As noted earlier, more total retirement dollars in the aggregate are held in IRAs than 401(k)s, but this estimate includes rollovers for all individuals, including retired workers. Aside from the differences between IRA and 401(k) balances, they generally exhibit similar patterns by demographics, income, and assets as those discussed for account ownership.

Who Withdraws from IRAs or 401(k)s?

Of retirement account owners, 8.3 percent made at least one withdrawal between 2004 and 2005 (table 5). The likelihood of withdrawing is highest among the youngest adults, those without college degrees, blacks, and those with the lowest income and assets. For example, 9.4 percent of adults ages 25 to 34 withdrew from their accounts during this period, compared with only 6.2 percent of adults ages 55 to 58. And 13.0 percent of blacks withdrew compared with only 7.8 percent of whites. Finally, 10.2 percent of adults in the bottom income group and 12.0 percent of those with negative or zero financial assets took withdrawals, compared with only 6.6 percent of

¹⁶ Note that the SIPP reports less retirement savings than the SCF for the same year. For example, the SCF shows that median retirement account balances for families headed by a 35-44 year old were \$30,600 (in 2007 dollars). Using similar criteria, we estimate a median balance of \$25,257 (in 2007 dollars). However, patterns of balances, most critical for this analysis, are similar across the surveys.

Table 4. Mean and Median Per Person Account Balances among Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s, 2004

	IRA or 401(k)		IRA		401(k)	
	Mean	Median	Mean	Median	Mean	Median
All	\$35,775	\$15,526	\$22,409	\$8,055	\$30,027	\$13,457
Age						
25-34	\$16,527	\$7,350	\$10,039	\$3,540	\$14,531	\$6,868
35-44	\$32,712 ***	\$15,595 ***	\$17,052 ***	\$6,728 ***	\$29,372 ***	\$14,564 ***
45-54	\$48,671 ***	\$23,876 ***	\$30,495 ***	\$12,596 ***	\$39,920 ***	\$20,701 ***
55-58	\$52,677 ***	\$24,292 ***	\$36,670 ***	\$15,125 ***	\$42,998 ***	\$21,446 ***
Sex						
Female	\$34,918	\$14,927	\$22,115	\$7,781	\$29,248	\$12,942
Male	\$36,672 **	\$15,553 **	\$22,719	\$8,250	\$30,833 **	\$13,974 *
Education						
< High School	\$14,453	\$3,728	\$12,706	\$1,515	\$12,969	\$4,041
High School	\$25,556 ***	\$11,146 ***	\$15,227	\$5,176 ***	\$23,741 ***	\$10,956 ***
> HS, Not Yet Bachelor's	\$29,694 ***	\$12,442 ***	\$18,655 *	\$6,212 ***	\$25,897 ***	\$11,389 ***
>= Bachelor's	\$47,615 ***	\$22,583 ***	\$27,443 ***	\$10,352 ***	\$38,296 ***	\$18,703 ***
Race						
Non-Hispanic White, Other	\$38,571	\$17,494	\$23,559	\$8,903	\$32,291	\$15,527
Non-Hispanic Black	\$20,506 ***	\$7,764 ***	\$14,293 ***	\$3,106 ***	\$17,784 ***	\$7,247 ***
Hispanic	\$17,517 ***	\$5,853 ***	\$9,662 ***	\$3,085 ***	\$17,049 ***	\$5,570 ***
Marital Status						
Unmarried	\$34,607	\$11,941	\$22,480	\$7,246	\$31,516	\$10,860
Married	\$36,154	\$16,176 ***	\$22,389	\$8,282 ***	\$29,571 *	\$14,299 ***
Income Quartile						
Bottom	\$19,349	\$5,424	\$20,409	\$5,176	\$12,610	\$4,138
Second	\$17,495	\$6,723 ***	\$14,495 ***	\$4,142	\$14,362 *	\$5,695 ***
Third	\$27,099 ***	\$12,421 ***	\$18,148	\$5,510	\$22,641 ***	\$11,386 ***
Top	\$55,247 ***	\$31,052 ***	\$28,425 ***	\$11,457 ***	\$45,381 ***	\$25,876 ***
Financial Assets Quartile						
Negative or Zero	\$22,300	\$8,799	\$15,102	\$3,884	\$19,631	\$8,298
Bottom	\$23,338	\$9,241	\$15,087	\$5,176	\$20,951	\$8,282
Second	\$32,418 ***	\$15,268 ***	\$18,688 ***	\$6,463 ***	\$27,969 ***	\$13,457 ***
Third	\$43,135 ***	\$21,528 ***	\$22,226 ***	\$9,233 ***	\$37,221 ***	\$19,667 ***
Top	\$66,549 ***	\$41,920 ***	\$35,682 ***	\$16,612 ***	\$54,275 ***	\$33,640 ***
Weighted Observations (000s)	62,728		34,693		48,843	
Unweighted Observations	15,795		8,782		12,362	
Unweighted Missing Obs.	1,058		688		1,158	

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, and living in families with IRAs or 401(k)s in 2004 having positive balances. All dollar amounts for couples are summed for each respondent and divided by 2. Financial assets exclude IRA and 401(k) balances. All results are weighted.

Mean or median is statistically different from the value for those in the first category of the subgroup at the 90 percent level*, 95 percent level **, and 99 percent level***.

**Table 5. Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004
Who Withdrew from Their Accounts between 2004 and 2005**

	IRA or 401(k)	IRA	401(k)
All	8.3%	4.0%	7.8%
Age			
25-34	9.4%	3.1%	9.7%
35-44	8.1% **	4.0% *	7.4% ***
45-54	8.2% **	4.3% **	7.5% ***
55-58	6.2% ***	4.5% *	4.8% ***
Sex			
Female	8.5%	4.1%	8.0%
Male	8.1%	3.8%	7.6%
Education			
< High School	9.3%	5.4%	9.3%
High School	9.0%	3.5%	9.5%
> HS, Not Yet Bachelor's	10.4%	5.4%	9.7%
>= Bachelor's	6.0% ***	3.1%	5.2% ***
Race			
Non-Hispanic White, Other	7.8%	3.8%	7.4%
Non-Hispanic Black	13.0% ***	7.4% ***	11.8% ***
Hispanic	8.9%	3.6%	9.0%
Marital Status			
Unmarried	9.7%	5.2%	9.8%
Married	7.8% ***	3.7% ***	7.2% ***
Income Quartile			
Bottom	10.2%	7.7%	10.2%
Second	9.5%	4.7% ***	9.7%
Third	9.1%	4.0% ***	9.0%
Top	6.6% ***	3.0% ***	5.7% ***
Financial Assets Quartile			
Negative or Zero	12.0%	7.0%	11.1%
Bottom	10.5% *	4.7% **	10.8%
Second	6.6% ***	3.0% ***	6.3% ***
Third	3.9% ***	2.3% ***	3.0% ***
Top	4.5% ***	2.0% ***	4.1% ***
Weighted Observations (000s)	66,996	37,460	53,543
Unweighted Observations	16,853	9,470	13,520

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, and living in families with IRAs or 401(k)s in 2004. Financial assets exclude IRA and 401(k) balances. All results are weighted.

Mean is statistically different from the value for those in the first category of the subgroup at the 90 percent level*, 95 percent level **, and 99 percent level***.

adults in the top income group and 4.5 percent of those in the top assets group. These patterns are fairly similar for IRA and 401(k) owners.

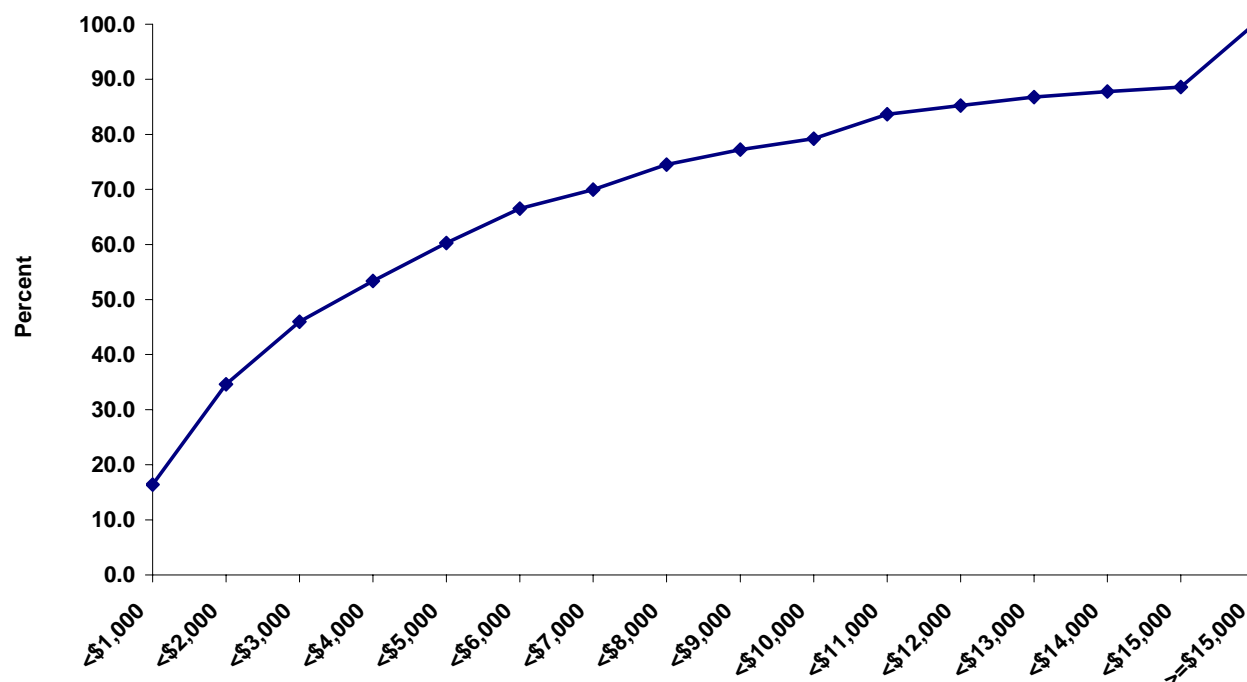
Reported withdrawals are much more common for 401(k) plans than IRAs. Nearly twice as many 401(k) owners as IRA owners withdrew from their accounts over the two-year period. Younger adults, high school graduates, and Hispanics, especially, report higher withdrawal rates from their 401(k) plans than their IRAs compared with their counterparts. The higher withdrawal rate for 401(k)s relative to IRAs probably reflects the tempting opportunity to withdraw retirement savings at a job change or the special financial needs that arise after losing a job or becoming disabled. Since many IRAs are established after a job change, individuals with these accounts may have shown a preference for retirement savings (and a lower propensity to withdraw) even though the regulations discussed earlier make it easier to tap into IRAs than 401(k) accounts. Of course, many individuals own both an IRA and a 401(k) and the higher balance in the 401(k) may make this a more attractive option for them. Among individuals in our sample owning both IRAs and 401(k)s, we find that 3.3 percent withdrew from their IRAs and 4.6 percent withdrew from their 401(k)s (not shown).

How Much is Withdrawn from IRAs and 401(k)s?

The distribution of withdrawal amounts is fairly wide, with about one in six adults withdrawing less than \$1,000 in retirement savings, three in five withdrawing less than \$5,000, and only about one in ten withdrawing *more* than \$15,000 (figure 2). This distribution reflects the rules that tend to limit large withdrawals. As described earlier, employers can automatically require lump-sum distributions of balances below \$1,000, forcing employees to make active decisions to open IRAs and roll over account balances or to take the money as a cashout. Employers must roll over

balances between \$1,000 and \$5,000 to an IRA or new employer plan or cash them out at employees' requests. Balances in excess of \$5,000 may be left in employer plans. Also, hardship withdrawals from 401(k) plans are usually limited to employee contributions (without earnings).

Figure 2. Cumulative Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Who Withdrew from Their Accounts between 2004 and 2005, by Withdrawal Amount



Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, living in families with IRAs or 401(k)s in 2004 who withdrew from their accounts between 2004 and 2005, and whose withdrawal amounts were not missing. All results are weighted.

On average, withdrawals from retirement accounts represent a large share of these savings for those that withdraw (table 6). However, considered over all retirement account owners, withdrawals represent a small share of retirement savings—at least in a two-year period. Average withdrawal amounts between 2004 and 2005 accounted for 20.9 percent of average 2004 account balances. Younger adults, those with less than a high school education, and Hispanics withdrew larger shares of their retirement assets than their counterparts—over 30 percent of their accounts during the two-year period. Similarly, those in the bottom income and

Table 6. Percent of Aggregate Account Balances Withdrawn among IRA and 401(k) Owners Ages 25 to 58

	Among Withdrawers			Among Owners		
	IRA or 401(k)	IRA	401(k)	IRA or 401(k)	IRA	401(k)
All	20.9%	21.3%	20.7%	1.5%	1.4%	1.5%
Age						
25-34	32.7%	40.3%	31.6%	2.8%	1.5%	3.3%
35-44	25.3%	32.0%	23.5%	1.4%	1.3%	1.5%
45-54	17.6%	21.5%	15.7%	1.3%	1.4%	1.2%
55-58	12.9%	11.7%	15.3%	1.1%	1.4%	0.8%
Sex						
Female	21.0%	20.9%	21.1%	1.6%	1.5%	1.6%
Male	20.8%	21.8%	20.3%	1.4%	1.3%	1.5%
Education						
< High School	31.5%	N/A	37.9%	2.5%	N/A	2.8%
High School	22.2%	19.9%	23.0%	1.9%	1.6%	2.0%
> HS, Not Yet Bachelor's	23.2%	25.5%	22.1%	2.3%	2.5%	2.2%
>= Bachelor's	17.6%	17.8%	17.4%	0.9%	0.9%	1.0%
Race						
Non-Hispanic White, Other	21.0%	20.8%	21.1%	1.4%	1.3%	1.4%
Non-Hispanic Black	16.1%	N/A	14.5%	3.1%	N/A	2.7%
Hispanic	37.1%	N/A	31.5%	2.1%	N/A	2.0%
Marital Status						
Unmarried	25.0%	25.6%	24.8%	2.4%	2.6%	2.4%
Married	18.9%	19.1%	18.8%	1.2%	1.1%	1.2%
Income Quartile						
Bottom	28.6%	26.0%	41.3%	4.4%	5.0%	3.2%
Second	24.7%	20.1%	27.8%	2.7%	2.3%	2.9%
Third	24.7%	27.0%	24.2%	1.9%	1.1%	2.3%
Top	16.4%	17.6%	15.9%	0.9%	0.9%	1.0%
Financial Assets Quartile						
Negative or Zero	25.3%	28.4%	23.9%	3.3%	3.8%	3.1%
Bottom	21.0%	18.5%	22.7%	2.4%	3.0%	2.1%
Second	20.4%	15.7%	22.2%	1.4%	0.9%	1.6%
Third	14.8%	15.1%	14.5%	0.5%	0.7%	0.5%
Top	14.2%	14.7%	14.0%	0.6%	0.4%	0.7%
Weighted Observations (000s)	5,118	1,331	3,886	62,728	34,693	48,843
Unweighted Observations	1,287	329	986	15,795	8,782	12,362
Unweighted Missing Obs.	113	34	83	1,058	688	1,158

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, living in families with IRAs or 401(k)s in 2004 having positive balances, who withdrew from their IRAs or 401(k)s between 2004 and 2005, and whose withdrawal amounts were not missing. Financial assets exclude IRA and 401(k) balances. All results are weighted. N/A means that statistic is not reported because it is based on fewer than 25 observations.

financial assets quartiles withdrew significantly more than those with higher income and assets. As shown earlier, these same groups had relatively lower starting balances in 2004.

The shares withdrawn over all owners suggest somewhat greater 401(k) withdrawals (relative to balances) among younger adults, those with less than a high school education, and those with lower income than among older adults, those with more education, and those with higher incomes. Likewise, those in the bottom income and financial assets quartiles withdrew more of their IRA savings than those in the highest income and assets groups.

What Events are Associated with IRA and 401(k) Withdrawals?

IRA and 401(k) withdrawals are significantly related to adults' changing circumstances. Adults who lost their jobs, switched jobs, experienced the onset of poor health, or purchased a home between 2004 and 2005 were more likely to withdraw from either their IRA or 401(k) than their counterparts who did not experience these events (table 7). Of the 11.1 percent of adults living in families who experienced a job loss, 15.0 percent withdrew from their retirement accounts compared with only 7.7 percent of adults living in families who did not lose a job. Also, withdrawals rates are 11.1 percent among those who experienced the onset of poor health, but only 8.0 percent among those who did not. Withdrawal rates are not statistically different between those who divorced or widowed and those whose marital status remained the same.

We expected that the birth of a child could be associated with a withdrawal since it represents a strain on family finances and possibly a reduction in hours and earnings for at least one of the parents. Instead, the share of adults who withdrew from their retirement accounts is lower among those who experienced the birth of a child between 2004 and 2005 than for those who did not. Of the 7.2 percent of adults in families that experienced the birth of a child, for

Table 7. Share of Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Who Withdrew from Their Accounts between 2004 and 2005, by Event

	Percent	Percent Who Withdraw		
	All	IRA or 401(k)	IRA	401(k)
All	100.0%	8.3%	4.0%	7.8%
Job Loss				
No	88.9%	7.7%	3.5%	7.2%
Yes	11.1%	15.0% ***	8.5% ***	14.3% ***
Job Switch				
No	92.5%	7.9%	3.8%	7.4%
Yes	7.5%	12.9% ***	5.7% **	12.3% ***
Onset of Poor Health				
No	86.4%	8.0%	3.7%	7.5%
Yes	13.6%	11.1% ***	6.1% ***	10.4% ***
Divorce or Widowhood				
No	99.0%	8.3%	3.9%	7.8%
Yes	1.0%	11.3%	11.5% **	8.4%
Birth of Child				
No	92.8%	8.5%	4.1%	8.0%
Yes	7.2%	5.9% ***	2.2% ***	5.6% ***
College Expenses				
No	92.2%	8.3%	4.1%	7.8%
Yes	7.8%	8.4%	3.0%	8.1%
Home Purchase				
No	94.4%	8.1%	3.8%	7.6%
Yes	5.6%	13.1% ***	7.7% ***	12.1% ***
Any event				
No	58.2%	6.7%	3.2%	6.4%
Yes	41.8%	10.7% ***	5.3% ***	10.0% ***
Adverse Event				
No	77.0%	7.3%	3.2%	6.9%
Yes	23.0%	12.7% ***	7.2% ***	11.8% ***
Investment Event				
No	75.0%	7.9%	3.9%	7.4%
Yes	25.0%	9.6% ***	4.2%	9.1% ***
Weighted Observations (000s)	130,967	66,996	37,460	53,543
Unweighted Observations	32,195	16,853	9,470	13,520

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, and living in families with IRAs or 401(k)s in 2004. All results are weighted.

Mean is statistically different from the value for those who do not experience the particular event at the 90 percent level*, 95 percent level **, and 99 percent level***.

example, 5.9 percent also withdrew from their retirement accounts. In contrast, 8.5 percent of adults who did not experience a birth withdrew from their retirement accounts. A possible explanation for this finding might be that parents have many months (or longer if it is a planned pregnancy) to prepare for a baby. Therefore, the birth of a child has less of a shock on income than unexpected events such as a job loss or the onset of poor health.

Retirement account withdrawals are more likely among adults who experienced an adverse event (including job loss, onset of poor health, and divorce or widowhood) than among those who experienced an investment event (including job switch, birth of a child, starting college, and home purchase). Matching the pattern we discussed above, withdrawals are more common from 401(k)s than IRAs for all the events we considered, but especially for job switches, the birth of a child, and starting college.

Multivariate Estimates. Using a probit model, we estimate the probability of withdrawing from IRAs and 401(k)s controlling for age, sex, education, race and ethnicity, marital status, IRA and 401(k) ownership, income, assets, adverse events, and investment events. Compared with whites, blacks are 2.2 percentage points more likely to withdraw from their retirement accounts and 2.9 percentage points more likely to withdraw from their IRAs (table 8). However, whites and blacks show no statistically significant difference in their probabilities of withdrawing from 401(k)s once other characteristics are taken into account.

Those in the top quartile of financial assets in 2004 are 5.0 percentage points less likely to withdraw from their retirement accounts than those with negative or zero financial assets. Even those in the second quartile are 2.9 percentage points less likely to withdraw from their retirement accounts than those negative or zero financial assets. This pattern is similar for IRAs

Table 8. Probability That Adults Ages 25 to 58 Living in Families with IRAs or 401(k)s in 2004 Withdrew from Their Accounts between 2004 and 2005

	IRA or 401(k)		IRA		401(k)	
	Marginal Effect	Std. Error	Marginal Effect	Std. Error	Marginal Effect	Std. Error
Year 2004						
Age						
25-34 (Omitted)						
35-44	-0.001	0.006	0.010 *	0.006	-0.007	0.006
45-54	0.002	0.007	0.015 **	0.007	-0.006	0.007
55-58	-0.004	0.010	0.020 **	0.011	-0.021 **	0.009
Sex						
Female (Omitted)						
Male	-0.004 *	0.002	-0.003 *	0.002	-0.003	0.002
Education						
< High School (Omitted)						
High School	-0.003	0.011	-0.009	0.011	0.002	0.012
> HS, Not Yet Bachelor's	0.009	0.012	0.003	0.013	0.007	0.012
>= Bachelor's	-0.017	0.012	-0.007	0.013	-0.018	0.012
Race						
Non-Hispanic White, Other (Omitted)						
Non-Hispanic Black	0.022 **	0.011	0.029 ***	0.014	0.011	0.010
Hispanic	-0.010	0.010	-0.006	0.009	-0.010	0.010
Marital Status						
Unmarried (Omitted)						
Married	-0.008	0.005	-0.006	0.005	-0.008	0.006
Own IRA or 401(k)						
Both (Omitted)						
Only IRA	-0.033 ***	0.006				
Only 401(k)	0.010	0.006				
IRA					-0.041 ***	0.006
401(k)			-0.006	0.005		
Income Quartile						
Bottom (Omitted)						
Second	-0.012	0.009	-0.012 *	0.006	0.001	0.012
Third	-0.010	0.009	-0.016 **	0.006	0.006	0.012
Top	-0.013	0.010	-0.013 *	0.007	0.000	0.012
Financial Assets Quartile						
Negative or Zero (Omitted)						
Bottom	-0.005	0.008	-0.010	0.006	0.004	0.009
Second	-0.029 ***	0.006	-0.017 ***	0.004	-0.021 ***	0.007
Third	-0.048 ***	0.006	-0.026 ***	0.004	-0.042 ***	0.006
Top	-0.050 ***	0.006	-0.030 ***	0.004	-0.040 ***	0.007
Between 2004 and 2005						
Events						
Job Loss	0.068 ***	0.012	0.043 ***	0.011	0.059 ***	0.013
Job Switch	0.045 ***	0.012	0.009	0.009	0.049 ***	0.013
Onset of Poor Health	0.023 ***	0.009	0.020 ***	0.009	0.017 *	0.010
Divorce or Widowhood	0.010	0.022	0.036 *	0.027	-0.012	0.020
Birth of Child	-0.019 *	0.009	-0.008	0.008	-0.018 *	0.010
College Expenses	-0.001	0.009	-0.009	0.006	0.005	0.010
Home Purchase	0.040 ***	0.013	0.035 ***	0.015	0.032 ***	0.013
Unweighted Observations	16,853		9,470		13,520	
Pseudo R2	0.058		0.080		0.066	
Observed P	0.083		0.038		0.079	

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, and living in families with IRAs or 401(k)s in 2004. Financial assets exclude IRA and 401(k) balances. Regression results are unweighted.

* p < .10; ** p < .05; *** p < .01

and for 401(k)s, though the marginal effects are smaller for IRAs than for 401(k)s. The result indicates that savings outside of retirement accounts can provide a cushion when financial needs arise and is consistent other survey results (Topoleski 2009).

Once demographic characteristics, economic characteristics, and life-changing events are simultaneously taken into account, some of the group differences in withdrawal patterns that we observed earlier are not statistically significant. For example, respondents who lack high school diplomas have statistically higher withdrawal rates than those with college degrees (see table 5). However, education is not a statistically significant predictor of withdrawals (see table 8) because other factors explain much of the difference. The results by age show a complex pattern where older adults are more likely to withdraw from their IRAs but less likely to withdraw from their 401(k)s. As we noted earlier, other studies have found that older workers are less likely to cash out their 401(k) balances than younger workers, and the results here are consistent. IRAs possibly play a different role in older adults' lives, namely providing a source of savings as other financial needs arise. Finally, income alone is not a strong predictor of retirement account withdrawals; however, it does have a significant and negative effect on the likelihood of tapping into IRAs.

Given the opportunity that workers often have to cash out their 401(k)s when they leave their employers, it's not surprising that job losses and job changes have the strongest connection with the probability of withdrawing from retirement accounts. Adults with involuntary job losses are 6.8 percentage points more likely to withdraw from either an IRA or 401(k) than those without job losses (table 8). Those with job losses also have a higher probability than their counterparts of withdrawing from both types of retirement accounts, though the likelihood is

significantly smaller for IRAs than for 401(k)s. The probability of withdrawing from either an IRA or 401(k) is 4.5 percentage points higher for adults who voluntarily change jobs than for those who do not. This result is driven entirely by 401(k) withdrawals; job switching is not related to IRA withdrawals. The result demonstrates the powerful effect of offering employees easy access to 401(k) money when they change jobs.

Adverse events outside of job loss can also lead to withdrawals. Those who experience the onset of poor health are more likely than those who remain healthy to withdraw from retirement accounts, but only by 2.3 percentage points. Poor health onset is more significant for IRA than 401(k) withdrawals. As noted earlier, owners may withdraw from 401(k)s and IRAs due to a total disability without penalty.

Buying a home represents the only investment event that is related to withdrawals from both IRA and 401(k) accounts. The probability an IRA withdrawal is 3.5 percentage points higher and the probability of a 401(k) withdrawal is 3.2 percentage points higher for those who purchase a home than for those who do not. Overall, adults who buy a home are 4.0 percentage points more likely to withdraw from their retirement accounts than their counterparts. In contrast, the likelihood of withdrawing from retirement accounts is 1.9 percentage points lower for those who have a baby than for those who do not.

Given the frequency of these events, these marginal effects imply significant consequences on the probability of withdrawing. The likelihood of withdrawing from retirement accounts increases by 82 percent for adults who lost their jobs, 54 percent for those who switched jobs, 49 percent for those who purchased a home, and 28 percent for adults who experienced the onset of poor health. The likelihood of withdrawals decreases by 23 percent with

the birth of a child. As expected given our earlier findings, divorce or widowhood and having college expenses do not significantly affect retirement account withdrawals after controlling for other characteristics. The rest of the life-changing events we examine, as well as access to other financial assets are the strongest predictors of retirement account withdrawals.

Share of Aggregate Dollars Leaked from Retirement Accounts

As described earlier, policymakers have established many rules to limit preretirement withdrawals from retirement accounts. Yet our results show that people nonetheless draw on these savings. Based on these SIPP data, reported withdrawals total \$33.2 billion over the two year period between 2004 and 2005, including \$10.8 billion from IRAs and \$22.3 billion from 401(k)s (table 9).¹⁷

Job terminations accounted for 22 percent of total retirement savings dollars leaked—12 percent from involuntary job losses and 10 percent from voluntary job changes. The onset of disabilities explained another 12 percent of aggregate withdrawals. Although the marginal effect of poor health on the probability of withdrawing is small compared with some other life-changing events (only about 2 percent as shown in table 8), the incidence of poor health is relatively high for this sample (almost 14 percent as shown in table 7).¹⁸ Home purchases

¹⁷ The U.S. GAO (2009) shows much larger amounts of leakage. However, the GAO analysis includes the last leakage event that occurred among SIPP survey respondents, regardless of the year it occurred. Over time, leakage amounts to a much larger loss than we show for a two-year period.

¹⁸ About 2 percent of respondents say they stopped working because of an illness or injury. Another 11.6 percent of respondents say they experienced the onset of a disability that limited the amount or kind of work they could do. Researchers find work-limiting disability rates to be higher in the SIPP than in the CPS due to differences in the way each survey asks the questions (Chandra and Samwick 2009; Hotchkiss 2003).

accounted for another 8 percent of the retirement savings leaked, college expenses, 5 percent, births, 3 percent, and divorce or widowhood, 2 percent.

Table 9. Percent of Aggregate Dollars Leaked from IRAs and 401(k)s between 2004 and 2005, by Event

	IRA or 401(k)	IRA	401(k)
Aggregate Dollars (billions)	\$33.2	\$10.8	\$22.3
All Withdrawals	100%	100%	100%
Job Loss	12%	13%	11%
Job Switch	10%	4%	13%
Onset of Poor Health	12%	12%	12%
Divorce or Widowhood	2%	4%	1%
Birth of Child	3%	1%	4%
College Expenses	5%	3%	5%
Home Purchase	8%	8%	9%
Unknown	48%	53%	45%
Adverse Events	26%	30%	24%
Investment Events	27%	18%	31%
Unknown	48%	53%	45%
IRA Withdrawal	33%	100%	
401(k) Withdrawal	48%		71%
401(k) Cashout	19%		29%

Source: Authors' calculations of the 2004 Survey of Income and Program Participation (SIPP).

Notes: Sample includes adults ages 25 to 58 in 2004, present during the entire 24 months between 2004 and 2005, and living in families with IRAs or 401(k)s in 2004 who withdrew from their accounts between 2004 and 2005. Events also occurred between 2004 and 2005, though they did not necessarily coincide with withdrawals. Withdrawals tied to multiple events are split equally among those events. 401(k) cashouts are withdrawals at job separation. All results are weighted.

Policies governing IRAs and 401(k)s allow for withdrawals when a family faces an event requiring unusual financial need. The events we can measure using the SIPP explain just over half (52 percent) of total dollars leaked between 2004 and 2005. The rest of the money leaked may be attributable to adverse events or investments that we can not observe or it could represent other consumption. IRAs and most 401(k) plans allow withdrawals for high, unreimbursable

medical costs that we can not measure using these data. Of course, poor health accounts for some of these expenses indirectly. Also, this type of expense among retirement account owners is relatively rare, suggesting that a large share of retirement savings may be lost unnecessarily.

Summary and Conclusions

Policymakers are searching for ways to increase retirement savings outside of Social Security. Ideas such as automatic enrollment in employer 401(k) plans and automatic IRA plans that enroll all new employees represent important initiatives to increase these savings. However, policymakers should also consider whether the rules governing access to these accounts prior to retirement properly balance family needs during periods of financial stress and limitations on nonessential consumption.

These results demonstrate that only about half of adults live in families with any retirement savings account. Those with more education, whites, and families with higher incomes and more assets are much more likely to own accounts than others. Among owners, these same groups have much higher balances than their less well-off counterparts. These patterns have been documented in many studies and to a large extent reflect the tax preferences for retirement savings that accrue to better-educated and higher-income groups (Turner 2009). Sadly, but not surprisingly, withdrawals from retirement accounts display the opposite pattern. That is, retirement account owners with limited education, low income, and few financial assets more often withdraw from these accounts over a two-year period. Results from our analytic model suggest that the lack of other financial assets to draw upon and events that trigger financial need explain these withdrawals more than education and income differences. The most

vulnerable groups start out with less and more often tap into what they have saved. The combination of these factors may help explain why these groups typically end up with little besides a Social Security check in retirement.

The results also show that adverse events, namely job loss and onset of poor health, and investment events, such as the purchase of a home, are strongly associated with retirement account leakage. These are legitimate and compelling reasons to tap into savings. Adverse events account for about one-quarter of the leakage. Another 10 percent of the leakage occurs when a worker leaves a job for another employer, and 8 percent occurs for home purchases. We cannot account for about half of the leakage. Some of it no doubt is associated with payment of high medical expenses that could not be measured in this study. However, much of the leakage we cannot document and losses at job change likely represent an unfortunate loss in retirement income security.

The results raise questions about whether withdrawals should be further discouraged. Policymakers and employers face a tough decision since studies suggest that fewer workers would save in these accounts if the savings were less accessible.¹⁹ Recent changes that require employers to automatically roll over retirement account balances above \$1,000 at job change (unless the employee requests a payment) move in the right direction. Perhaps this rule could be extended to smaller balances. The Pension Protection Act of 2006 also requires employers to send a stronger message to departing employees about the consequences of cashing out their retirement savings.

¹⁹ Most of the evidence used to support this argument shows that the availability of loans in employer provisions slightly increases participation (U.S. GAO 1997). Other research shows that employees with few other liquid assets are less likely than others to participate (Curme and Even 1995).

One might question whether retirement accounts should play such a broad role in families' savings needs or whether workers should be encouraged to save for other life events in separate accounts. Policies that offer nonretirement savings incentives for low- and middle-income families include individual development accounts and automatic deposit of earned income tax credit refunds into savings accounts. Alternatively, increased retirement savings could be mandated through an add-on to Social Security as proposed by some lawmakers rather than focusing on voluntary savings plans.

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